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INTERVENTION
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AZ CORP COMMISSION
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Attorneys for El Paso Natural Gas Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF SOUTHWEST GAS CORPORATION
FOR PRE-APPROVAL OF COST
RECOVERY FOR PARTICIPATION IN THE
TRANSWESTERN PIPELINE PHOENIX
PROJECT

DOCKET NO. G-01551A-06-0107

**APPLICATION FOR LEAVE TO
INTERVENE**

Pursuant to A.A.C. R14-3-105, El Paso Natural Gas Company ("EPNG") applies to the Arizona Corporation Commission (the "Commission") for an order granting EPNG leave to intervene in the above-captioned proceeding. EPNG has a direct and substantial interest in these proceedings, and its intervention will not broaden or unduly delay a decision by the Commission on the merits of the application. Moreover, EPNG's intervention will be in the public interest because it will assist the Commission in determining the central issue in this docket – the prudence of Southwest Gas Corporation's ("SWG") requested cost recovery, including the rate premium SWG has agreed to pay under the agreement at issue.

1. Introduction

On February 22, 2006, SWG filed an application ("Application") with the Commission for pre-approval of an Expansion Agreement between SWG and Transwestern Pipeline Company, LLC ("Transwestern") and associated costs as reasonable and prudent. Such a determination would provide SWG a guarantee of full recovery of those costs through its existing Purchased Gas Cost Adjustment Mechanism.

1 SWG asserts that its request is made pursuant to the Commission's Policy Statement
2 Regarding New Natural Gas Pipeline and Storage Costs ("Policy Statement"), issued on
3 December 18, 2003. The Policy Statement recognizes that "[t]raditionally Arizona utilities have
4 not sought and the Commission has not granted pre-approval of cost recovery from participation
5 in infrastructure projects or other projects," and that the "preferred method" of selecting the most
6 cost-effective project is the "traditional approach" whereby utilities file for cost recovery after
7 incurring infrastructure costs. Although the Policy Statement also recognizes alternate
8 approaches, including filings by Arizona utilities for pre-approval of costs in cases where such
9 pre-approval may assist in the development of natural gas infrastructure in Arizona, the
10 Commission was careful to point out that changing the dynamics of cost recovery through
11 alternate approaches is "something which should be done very carefully," and should not be done
12 "to the detriment of [utilities'] customers through increased rates or degradation of service." The
13 Policy Statement also recognizes that "the region's natural gas consumers and infrastructure
14 developers play a fundamental role in determining how to best address the region's infrastructure
15 needs."¹ As a natural gas "infrastructure developer" committed to serving Arizona customers,
16 EPNG believes that intervention in this particular proceeding is consistent with this fundamental
17 role and the public interest.

18 The Policy Statement is the result of the Commission's April 15, 2003 Notice of Inquiry
19 on the Issue of Arizona Corporation Commission Policy and Action on Natural Gas Infrastructure
20 Matters in Arizona ("NOI"). EPNG participated in that proceeding, and on September 25, 2003,
21 filed its Comments in Response to the September 10, 2003 Workshop ("NOI Comments").²
22 EPNG responded to many of the issues identified in the so-called "Strawman Proposal" authored
23

24
25 ¹ The Commission typically determines prudence within the context of a rate case.

26 ² EPNG and Copper Eagle Gas Storage, LLC were jointly developing a natural gas storage facility in western Maricopa County at the time the Comments were filed.

1 by Commission Staff, including the need for diversity (*e.g.*, infrastructure or supply), long-term
2 planning, and the central issue to be addressed in this proceeding – pre-approval of cost recovery.

3 **2. EPNG has a Direct and Substantial Interest in These Proceedings**

4 It is clear from both the NOI and Policy Statement that EPNG, as the major transporter of
5 natural gas in Arizona, has a direct and substantial interest in these proceedings. The
6 Commission's review of SWG's Application could affect EPNG's ongoing planning and future
7 development of its own infrastructure in Arizona. SWG is requesting that the Commission
8 approve the Expansion Agreement in order to "accomplish several of the objectives" specified in
9 the Policy Statement.

10 Because SWG redacted the pricing provisions of its contract with Transwestern, EPNG
11 has been unable to verify the amount of the rate premium SWG has agreed to pay. The redactions
12 by SWG also have limited the information available to EPNG to analyze the basis for SWG's
13 assumed savings in commodity costs, an assumption that appears questionable given that EPNG
14 already provides access to the same supply basins accessed by Transwestern, and to additional
15 supply sources as well.

16 In any event, based on the limited information available at this time, it is clear that this
17 proceeding will directly affect EPNG's interests in several respects. First, it could cause SWG, a
18 current customer of EPNG, to use Transwestern for a portion of its existing loads even though,
19 based on the information available at the present time, EPNG can provide the same or superior
20 service at a lower cost. Second, SWG's filing may require EPNG to consider alternatives in long-
21 term planning for future construction in Arizona. Finally, approval of a rate premium may affect
22 EPNG's ability to compete with other developers of natural gas infrastructure in capital markets
23 for the financing of facilities.

1 **3. EPNG's Participation Will Not Broaden the Issues or Unduly Delay a**
2 **Decision by the Commission on the Merits of the Application**

3 EPNG supports the Commission's efforts to encourage the development and construction
4 of natural gas infrastructure in Arizona. *See, e.g.*, EPNG's NOI Comments. The pre-approval of
5 costs is the central policy issue addressed by this proceeding. The Commission is being asked to
6 determine whether the proposed Expansion Agreement and related costs represent prudently
7 incurred expenses that SWG should be allowed to recover from ratepayers in future rate cases.
8 Since each separate request for cost recovery is likely to present a unique set of circumstances,
9 the Policy Statement requires that SWG's Application be closely scrutinized to determine
10 whether "specific requests for cost recovery proposals are appropriate to the circumstances for
11 each individual application."

12 The Commission favors an open and transparent decision-making process. EPNG's
13 contribution to the overall analysis and public review would assist the Commission in
14 determining whether the amount of the rate premium SWG is requesting to pass through to
15 Arizona ratepayers represents an acceptable rate for purposes stated in the Policy Statement, and
16 is otherwise consistent with Arizona law. EPNG's intervention will be limited in scope to the
17 issues being addressed in this proceeding – issues that go directly to the prudence of the
18 Expansion Agreement SWG's related costs, and whether pre-approval of these costs for recovery
19 in future rate cases is in the public interest.

20 **4. Conclusion**

21 The Commission traditionally affords interested parties intervention in Commission
22 proceedings, and the requirements of A.A.C. R14-3-105 are liberally construed for this purpose.
23 For the reasons set forth herein, EPNG respectfully requests that the Commission issue an order
24 granting this Application for Leave to Intervene as in the public interest.

25 All communications in connection with the above-captioned proceedings should be directed
26 to:

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2 Jay L. Shapiro
3 Patrick J. Black
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8 RESPECTFULLY SUBMITTED this 14th day of March, 2006.

9 FENNEMORE CRAIG, P.C.

10 By: 

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17 ORIGINAL and 13 copies of the foregoing
18 hand-delivered for filing this 14th day of March, 2006:

19 Docket Control
20 ARIZONA CORPORATION COMMISSION
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22 Phoenix, Arizona 85007

23 COPY of the foregoing hand-delivered
24 this 14th day of March, 2006 to:

25 Lyn Farmer, Chief Administrative Law Judge
26 Hearing Division
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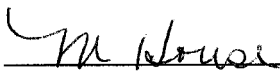
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6 COPY of the foregoing mailed this 14th
7 day of March, 2006, to:

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13 _____

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